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# OPINION AND COMMENT



The Occupational Credit Pattern

Extracts From an Address Delivered Before Students  
of the College of Commerce

Illinois Oil

“Wholesale” Buying by Consumers

Labor Standards and the Defense Program

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COMPILED BY THE  
BUREAU OF BUSINESS RESEARCH

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# OPINION AND COMMENT

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This publication of the Bureau of Business Research of the University of Illinois rests upon the belief that business men of the State will appreciate interpretative comments on current events. Because studied opinions on the significance of current trends are often more thought-provoking in the conduct of business affairs than mere tabulations of data would be, the Bureau supplements its research bulletins by producing *Opinion and Comment* as another type of service to the State.

The opinions expressed in the articles are, of course, the personal views of the respective authors and not necessarily those of the College of Commerce or the University.

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# The Occupational Credit Pattern

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THREE important factors in extending retail credit are: the regularity or dependability of the applicant's income; the amount of his income; and his sense of responsibility or his honesty. The applicant's occupation gives a pretty fair indication of the two former, and in some cases an idea of the third. Some credit men say that occupation is of little importance in passing upon applications for credit; they are apparently thinking primarily of the third factor—sense of responsibility. In some instances occupation does indicate something of the character and sense of responsibility of workers. For example, teachers, retail salespeople, nurses, doctors, and ministers usually have a considerable sense of responsibility. On the other hand, this sense seems to be developed to a relatively lower degree among workers in some occupations—for example, unskilled laborers, waiters, miners, barbers, janitors, and painters.

In certain occupations many of the workers drift from place to place and job to job; whereas the workers in other occupations are pretty definitely tied to one community. Land-owning farmers do not change their locations frequently. When merchants, lawyers, doctors, and dentists change towns, they usually experience a loss of income until their new ventures are

established. Some jobs are obtained through experience or seniority with a particular employer. Examples are furnished by trainmen, army officers, chain store managers, and many business executives. Some employers require their employees to pay their bills to retain their positions. If the job has been obtained by years of service, the worker is forced to maintain his credit standing. The attitude of employers varies. The credit bureau of one town reports that one railroad suspends workers who do not pay their bills, but two other roads do not take such action. One bureau reports that army officers are required to pay their bills and another says of policemen: "They have to pay or lose their jobs." Another says that priests are required by diocese regulations to pay their bills every 30 days.

There are, of course, excellent credit risks among painters, barbers, musicians, domestic servants, common laborers, and others whose occupational ratings are toward the bottom of the list. On the other hand, there are dead beats among business executives, chain store managers, skilled factory workers, and stenographers. In spite of these exceptions, occupation is still felt to be of importance by the majority of credit men. This is especially true of those with large departments who must often pass on credit applica-

TABLE 1  
CREDIT RATINGS OF VARIOUS OCCUPATIONS<sup>a</sup>

Occupation	1941 <sup>b</sup>			1931 <sup>c</sup> Credit Bureaus
	Average	Credit Bureaus	Stores	
Business Executives.....	95.3	97.1	93.5	....
Army Officers.....	92.2	90.2	94.1	....
Chain Store Managers.....	92.1	93.4	90.7	89.0
Skilled Factory Workers.....	89.5	90.4	88.5	....
Office Workers.....	89.1	91.0	87.1	88.1
Trainmen.....	89.0	90.0	88.0	84.5
Retailers (Independent).....	88.6	91.0	86.1	81.6
Civil Service Employees.....	87.5	....	87.5	....
Engineers (Civil, etc.).....	87.4	83.0	91.8	....
Farmers (Owners).....	84.7	84.2	85.1	73.9
School Teachers.....	83.5	85.8	81.2	89.3
Doctors.....	83.2	88.5	77.8	84.9
Retail Salespeople.....	81.7	85.6	77.7	81.7
Dentists.....	81.5	87.2	75.8	83.7
Postal Employees.....	77.6	82.9	72.2	....
Nurses.....	77.3	80.0	74.5	78.2
Traveling Salesmen (Wholesale).....	74.3	81.4	67.1	64.0
Ministers.....	73.4	75.6	71.1	....
Contractors.....	68.3	70.8	65.8	....
Policemen.....	63.0	64.3	61.7	62.1
Lawyers.....	61.0	62.7	59.2	66.0
R. R. Section Hands.....	60.3	59.4	61.2	63.9
College Students.....	59.5	60.0	59.0	59.6
Plumbers.....	59.3	....	59.3	....
Carpenters.....	57.4	58.5	56.2	50.0
Unskilled Factory Workers.....	57.2	57.9	56.4	....
Janitors.....	54.6	58.7	50.5	55.9
Farmers (Tenants).....	49.8	48.1	51.4	46.1
Common Laborers.....	47.8	45.2	50.4	41.3
Domestic Servants.....	47.1	47.5	46.7	54.2
Coal Miners.....	46.9	46.0	47.7	46.4
Waiters (Hotel, Rest., etc.).....	46.7	53.3	40.0	....
Barbers.....	45.7	47.1	44.3	41.2
Plasterers.....	45.7	47.6	43.8	....
Soldiers (Enlisted Men).....	44.6	44.4	44.8	....
Bartenders.....	42.3	45.6	39.0	....
Painters.....	36.1	33.3	38.8	30.5
Farm Laborers.....	35.8	36.6	35.0	....
Musicians.....	33.5	33.3	33.6	....

<sup>a</sup>Percentage ratings were determined according to the following scale: good, 100; fair, 60; poor, 20.

<sup>b</sup>Each of the 39 ratings listed in the table for 1941 is based upon 162 to 1,280 reports. The following 6 occupations were rated by less than 100 but more than 25 credit executives: architects, 72.9; firemen (city), 62.8; oil field workers, 61.4; miners (other than coal), 49.1; lumberjacks, 41.5; truckers, 34.6.

<sup>c</sup>The 1931 ratings were each based upon 49 to 154 reports.

TABLE 2  
OCCUPATIONS RATED IN 1931 BUT NOT IN 1941

Occupation	1931 Ratings	Occupation	1931 Ratings
Retail Grocers.....	87.1	Automobile Mechanics.....	56.9
Railroad Shopmen.....	81.8	Brick Masons.....	54.5
Factory Workers: Men.....	63.3	Hotel Employees.....	48.8
Factory Workers: Women.....	60.0	Truck and Bus Drivers.....	43.9
Factory Workers <sup>a</sup> .....	63.9	Automobile Salesmen.....	42.3
Railroad Trackwalkers.....	60.9	Restaurant Employees.....	37.4
Filling Station Employees.....	60.0		

<sup>a</sup>Rated by a different group of bureaus from those reporting the two preceding ratings.

tions without any opportunity to become personally acquainted with the applicant. But let me emphasize the fact that occupation is *only one* of several important factors.

This article presents the findings of a study of occupations and credit standing made by the Associated Credit Bureaus of America, the Credit Management Division of the National Retail Dry Goods Association, and the Bureau of Business Research of the University of Illinois. Table 1 shows ratings derived from reports obtained from 512 credit bureaus and 819 stores. Some—perhaps most—of the reports were based on the judgment of experienced credit executives. In some cases one report represents the combined judgment of the executives employed by a credit bureau, by the credit department of a store, or by the retail members of a credit bureau. Some reports represent the judgment of a number of individual credit men—in one case, 41. A minority of the reports are based on statistical analyses of

the paying habits of individuals in the credit files of reporting organizations.

Reports were received from the 48 states, Canada, the District of Columbia, and Hawaii. The coverage in this study is much wider than that in my former study made in the fall of 1931, which was based on 158 reports, most of them obtained from credit bureaus in the Middle West. The list of occupations used in the 1941 study included some of those used in the 1931 study and several not used in the former study. The coverage was extended in order to increase the number of occupations rated. The 1941 ratings tended to be somewhat higher than those for 1931, perhaps because of more favorable economic conditions. On the whole, however, most of the ratings in the two studies were fairly similar; we may therefore conclude that the relative ratings secured in the former study still apply. Occupations rated in 1931 but not in 1941 are shown in Table 2.

## Comparison of Bureau and Store Ratings

The data in Table 1 show that the credit bureaus tend to give somewhat higher ratings than the credit managers of stores. For 37 occupations rated by both, the bureau ratings were higher in 27 cases and the store ratings higher in 10 cases. The bureau ratings were more often above those of the stores for the occupations in the upper half of the table than for the occupations in the lower half of the table.

## Ratings of Individual Occupations

A study of the ratings in the tables indicates that dependability and regularity of income and sense of credit responsibility are more important in securing good credit ratings than size of income. Among the occupations listed in the upper half of the table we find principally those with fairly steady work and dependable incomes and those with above average incomes. Only a few occupations (e.g., farm owners, doctors, contractors) in this upper group have highly irregular incomes. In some occupations (ministers, nurses, engineers) some of the workers have irregular incomes but others have regularly paid salaries. Skilled factory workers may not always have steady work, but most of them were steadily employed for a year or more before this survey was made.

On the other hand, many of the occupations in the upper half of the table receive average or below-average incomes but have relatively

dependable jobs—office workers, civil service employees, school teachers, retail salespeople, postal employees, and policemen.

Some very interesting comments were made in regard to some of these occupations. Office workers (clerks, stenographers, etc.) are near the top of the list—nearer the top than might be expected in view of the size of their incomes. Of them one credit executive said: "Careful conservative buyers; they have no accounts placed for collection." Another reported: "Skilled office workers are good but the unskilled are poor pay." Trainmen were reported by several bureaus as inclined to over-buy. Farmers who own their land were generally reported to be slow but sure in paying their bills. Many commented that farmers were good pay when the crops were good. One credit manager thought somewhat less favorably of them, saying: "All poor. If account is finally settled, they think it is satisfactory." From the South: "Planters pay once a year and some make occasional payments during the year on their accounts." Tenant farmers had a much lower average rating than land-owning farmers. In some areas they were reported as very poor and in others as fairly good.

School teachers have a good rating, but it was noted that they are often paid only for nine months and that many "go broke" during the summer.

Considering their relatively low incomes, retail salespeople enjoy a remarkably high credit rating. One manager said: "Their jobs make

them credit-conscious." Another noted that they had to pay or lose their jobs. It may be that in the case of office workers, school teachers, and retail salespeople, many are women who do not have the entire responsibility of supporting families and thus are able to meet their obligations promptly. It seems, however, that these three groups as a rule have a relatively high degree of honesty.

Several reported that nurses with staff jobs (e.g., in hospitals) were good risks, but that those in private practice were not nearly so good because of irregular work.

Some very interesting comments were made on doctors, lawyers, and dentists. One bureau reported that these professional men were often slow because of carelessness. Another said that doctors and lawyers often had trouble collecting their fees and so had irregular incomes. Of these two professions, one credit manager reported: "They go over the due date because they are good and know it." The income varies widely among men in the same profession in the same town. In one town there were 10 doctors, 4 of whom had good practices and 6, poor practices; 12 lawyers, only 2 of whom had good practices; and 2 dentists, both of whom were reported as good risks. Of 26 doctors in another town, 23 were reported good and 3 poor; of 10 lawyers, 7 were reported as good and 3 poor; and of 5 dentists, 3 were reported good and 2 slow.

Some may be surprised that ministers have only a fairly good rating. It must, however, be remembered

that many are very poorly paid and that others are paid very irregularly. Those with good pastorates were reported as excellent risks. Ministers with low and irregular pay or without regular pastorates were often reported as poor pay. The following comment is interesting: "Ministers usually take advantage of their position. They spend their money helping others, and let their own bills go."

Of traveling salesmen, one manager says: "They often feel it necessary to live beyond their means." Others comment that salesmen with good companies are good and those on salaries are good, but those on commission are poor.

In the lower half of the table are to be found principally those occupations with low or irregular incomes or with both low wages and irregular employment. Workers in the building trades (plumbers, carpenters, plasterers, painters, masons) have below-average ratings. They have high hourly earnings but they usually do not have regular work throughout the year. Perhaps the irregularity of employment lessens their sense of responsibility. One manager reported painters as "poor to terrible." Yet many individuals in these occupations are good risks. One report said that 10 per cent of the painters were good; another gave the same proportion of barbers as good.

Here we also find many workers with low incomes—domestic servants, janitors, common laborers, waiters, farm laborers, soldiers, and some of the unskilled factory workers. A number of these also have

irregular employment. Many individual workers in these occupations who have steady jobs are good risks within the limits of their earnings. Some reported that some domestic servants, waitresses, and common laborers when steadily employed were excellent risks.

Several occupations with low ratings contain many transient workers. This is true of common laborers, farm laborers, unskilled factory workers, coal miners, and men in the building trades, who frequently move from one town to another. Transients are usually reported as having little sense of credit responsibility. This may be illustrated by the case of coal miners. Several bureaus reported that their unsteady employment (often seasonal) explained their low credit rating. The comments of one bureau with 30,000 cards of coal miners in its files are illuminating. These miners include white and colored and a dozen nationalities. Some have "the most consistent good paying records and some have the worst records. They average a fair rating." The mines employ foremen, inspectors, electricians, shop men, and engineers who are paid by the month and have steady jobs whether the mines work or not. There are also maintenance men who are paid by the day but have steady jobs. The miners proper are paid by either ton or day but only when the mines operate. The salaried men earn from \$140 to \$250 monthly, whereas the piece-rate workers may earn from \$90 to \$275 monthly.

Married men are generally better

pay than single men. "Single miners are footloose and drift from field to field, mine to mine, and company to company. They frequently leave behind unpaid bills with both employers and independent business men. Their debts are largely for clothing, gasoline, and automobiles. The bills for automobiles, which are sold on secured sales contracts, are usually collected, but open accounts are frequently charged off. . . . Single men again lead in fines to pay and girl troubles to look after. Except for the technical jobs, the majority of these men are in the lower intelligence brackets, work at daily hazardous jobs, live each day to the full, expecting no tomorrow. They don't save money, don't worry, eat, sleep, fight, and drink between work days."

This bureau also says that workers often change their names when changing jobs and thus entirely escape paying past debts. Social security records, work records, alien registration, and the selective draft service cards have recently made this practice more difficult. Other methods of evading payment include swearing that one has less than \$200 property when sued and so avoiding execution or garnishment; keeping property in wife's name; keeping all tangible property covered by chattel mortgages held by relatives and never released; and going through personal bankruptcy.

### Women Better Credit Risks than Men

Women were reported to be better credit risks than men in the same occupation. Out of more than 1,000

answers, 58 per cent said women were better risks, 22 per cent said that men and women rated the same, and 20 per cent said that men were the better risks. Women seem to have a higher sense of responsibility than men, and are less likely than men to have the entire responsibility of supporting families.

### Changes in Ratings with Changes in Occupation

A slight majority of the credit men said that a man's credit rating changed when he changed his occupation.

### Comparisons with Previous Study

The ratings in the 1941 study were, for the most part, higher than those in the 1931 study. This difference may be explained in whole or part by the difference in the position in the business cycle when the studies were made. The 1931 study was made in the fall of that year at a time when economic conditions were rapidly approaching the depression stage, whereas that of 1941 was made in the spring, when employment and business were relatively good. As the 1931 reports were made largely by credit bureaus, it seems logical to compare the ratings secured in that study with those secured from the bureaus in the present study. Of 23 occupations rated in both studies, 17 rated higher in 1941 than in 1931. Increases of more than 5 points are shown for traveling salesmen, farmers (owners), retailers, carpenters, barbers, and railroad trainmen. Improved

economic conditions probably account for most of the higher ratings. Farm prices are better than in 1931. Trainmen and carpenters are more regularly employed. Better sales should mean higher incomes for salesmen and for retailers.

Decreases of more than 3 points were noted in the rating of domestic servants, railroad section hands, and school teachers. It may be that the number of domestic servants who have been on relief for longer or shorter periods has hurt their credit standing. One bureau manager notes: "Various forms of assistance handed out by the Federal government have had a very noticeable effect on recipients' attitudes toward meeting obligations. In my opinion it has had the effect of fostering a spirit of self-pity." In the case of railroad section hands, it is known that many roads have greatly reduced the number of section hands employed; this may have meant less regular employment for many men.

No explanation was given for the decline in the rating of school teachers, although it was mentioned by several bureaus. One credit man says that teachers spend too much on automobiles.

### Geographical Differences

The same occupation may have a different rating in different towns, as is well illustrated by the case of postal employees. On the average, they have a fairly good credit rating, but this average is based on reports from towns where their rating is excellent and others where

TABLE 3  
AVERAGE CREDIT RATINGS OF 30 OCCUPATIONS BY GEOGRAPHICAL AREAS

Rocky Mountains—(Colo., Idaho, Mont., Nev., Utah, Wyo.).....	73.4
Plains—(Kan., N. D., Neb., S. D.).....	70.5
Pacific Coast—(Northern Calif., Ore., Wash.).....	70.2
Middle West—(Ill., Ind., Iowa, Mich., Minn., Mo., Ohio, Wis.).....	69.8
New England—(Conn., Mass., Me., N. H., R. I., Vt.).....	68.9
Upper South—(Ky., N. C., Tenn., Va., W. Va.).....	68.3
Southwest—(Ariz., N. M., Okla., Southern Calif., West Texas).....	67.5
Middle Atlantic—(D. C., Del., Md., N. J., N. Y., Pa.).....	67.0
Lower South—(Ala., Ark., East Texas, Fla., Ga., La., Miss., S. C.)....	66.2

it is not so good. Of postal employees one bureau says: "Our experience has been very unsatisfactory." Another: "Very poor pay." Another: "Not subject to garnishment." Another says that all postal employees in the town, except the postmaster, have good ratings. Yet the majority of towns gave the postal employees good ratings, so that their average rating is fairly good. Janitors, to take another example, have a relatively low average income and credit rating, yet one bureau reports that most janitors in its town are also night watchmen and good risks. Because of such differences credit men should not accept the average ratings as necessarily applying to all occupations in their towns.

Comments were made by some bureaus that the credit standings of certain occupations in their communities were affected by the race of many of the workers. For example, many of the farm laborers, tenant farmers, railroad section hands, and domestic servants in the South are negroes and in the Southwest many are Mexicans. Such comments suggest that there may be some significant sectional differences

in credit ratings. To test this suggestion, the reports from the credit bureaus were tabulated by geographical areas. The results are shown in Table 3. The average ratings of 30 occupations were higher by three percentage points in the Rocky Mountain states than in any other area. Ratings in the Lower South, Middle Atlantic states, and Southwest were lowest. The differences in these average sectional ratings are probably too small to have great significance. However, when individual occupations are considered, there are some noteworthy variations.

Of the 30 occupations included in this part of the study, 6 show sectional averages with a variation of over 20 percentage points, 8, a difference of between 15 and 20 points, and 7, a range of between 10 and 15 points. Thus only 9 of the 30 occupations show a variation among geographical areas of less than 10 points.

Policemen had their high rating of 80.5 points in the Rocky Mountain states and their low of 52.2 points in the Middle Atlantic states. Janitors varied from a rating of 70 in New England to 43.3 in the

Upper South. Bartenders had their highest rating (62.9) in the Upper South and their lowest (40) in the Plains states. Carpenters rated 69.2 in the Rocky Mountain states and 47.7 in the Lower South. Ministers fell from a rating of 85.3 in the Rocky Mountains to 65.7 on the Pacific Coast. Domestic servants rated 58.7 in the Plains states but only 39.3 on the Pacific Coast. Barbers rated 60 in New England but only 41.3 in the Lower South. The rating of lawyers varied from 71.4 in the Plains states to 51.1 in New England. Nurses had their highest rating in the Rocky Mountain states (87.8) and their lowest rating (70.9) on the Pacific Coast. Postal employees rated 88.7 in the Rocky Mountain states and 72.5 in the Lower South. Unskilled factory workers had a rating of 65.3 in New England and 49.4 in the Lower South. Farm laborers had their best rating in New England (49.3) and their poorest (33.8) in the Lower South. Farm owners had the high rating of 90.7 in the Middle West, whereas in the Lower South they rated only 75.6. Physicians rated 94.1 in the Rocky Mountain states and from this figure varied downward to 79.6 in the Middle Atlantic states. Tenant farmers had their best rating (53.9) in the Middle West and their poorest rating (39.3) in the Lower South. Plasterers dropped from a rating of 55.3 in New England to 41.2 in the Plains states. Traveling salesmen rated 87.3 in the Lower South but only 73.3 in the Southwest. Painters had a low rating, reaching their highest (40) in the Rocky Mountain states

and their lowest (27.1) in New England.

Most of the occupations with relatively slight sectional variations were those with high average national ratings: business executives, chain store managers, retail merchants, retail salespeople, office workers, skilled factory workers, trainmen, school teachers, and dentists. On the other hand, the majority of the occupations showing wide variation in ratings in different sections of the country had low or average national ratings. The information at hand does not explain the reason for the wide variations in ratings among different parts of the country. The following factors may be involved: type of population, variation in supply of workers in relation to demand in different occupations, type of farming (fertility of soil, size of farm, tenancy conditions, one-crop vs. mixed farming), prevailing credit terms, differences in wage and salary scales, regularity of employment, and attitudes of employers in requiring employees to maintain good credit ratings. It may be that the prevalence of one-crop systems and long credit terms helps to explain the relatively low ratings of both tenant and land-owning farmers in the Lower South. Again one may conjecture that the relatively high rating of several occupations in the Rocky Mountain states may be attributed to the lack of overcrowding in these occupations and to the absence of large groups of recent immigrants. With these suggestions, the reader is left to make his own interpretations.

# Extracts From an Address Delivered Before Students of the College of Commerce University of Illinois

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**I**N THE first pages of Genesis we read of the early beginnings of the social system which, with some modification and a few lapses, has come down through the ages. According to the Biblical account, the patriarch Lamech had three sons, among whom the then recognized functions were partitioned.

The first-born, Jabal, became the producer, and to him was assigned the duty of supplying the means of subsistence, first for the family, then for the tribe, and finally for all the people.

The second son, Jubal, apparently performed no very useful work at the outset. He fashioned an instrument out of a reed and played a tune on it; when he had achieved two tunes, he thereby became the first artist. It is not to be assumed that blowing on a pipe constituted the sum total of Jubal's attainments, although to him and to his descendants we are indebted for all we have and enjoy in music. However, he would probably rise up from his grave if he should suspect that he was held even remotely responsible for so-called swing music.

Tubal-cain was the artisan. He is recognized as the first artificer in brass and other metals. The state-

ment that brass was known in those days suggests that there are not so many new things under the sun as we sometimes assume.

Often without reward or recognition, he and his descendants contrived the sickle and the plow; the cart and the locomotive; the bridge and the sky-scraper; and the implements and engines used every day in all trades and occupations, upon which we are all so dependent for health, comfort, and life itself. Unfortunately, some of his followers and imitators have prostituted these inventions into diabolical tools of destruction and, as a result, civilization is now in jeopardy.

When the early family was small and all resided in the same neighborhood, the requirements for life were simple. All joined in tilling the soil and performing other necessary tasks. The responsibility for providing food by fishing and hunting fell to those who were skilled in such pursuits. As the population grew and spread over the earth, the responsibility of Jabal was vastly increased. Problems arose in regard to the collection of materials, and the processing and distributing of commodities. As the complexity of operations multiplied, there had to

be workers for all the variety of trades which began to develop. The maiden who formerly tended the cow or the goat no longer carried the milk to the neighbors. The man who wanted meat for his family could no longer get it from the common store. There were now too many families and distances were too great.

Refinement and expansion in processes and practices came with the development of civilization, but in some respects there is still much room for improvement.

Lamech, in his day, may not have known much about either physical or spiritual laws, but he did recognize that in a growing society there are certain realities that have to be treated according to principle. He understood that in a broad sense production was already a primary element; and he knew also that the cultural side of life would have to be provided for. As to distribution, if he had any idea at all, it was no doubt rather hazy, but perhaps no more so than the notions held by some economists of the present day. As for transportation, he probably regarded it, as some do even now, as only a necessary chore.

There is some contention that many of the ills of society are due to faulty distribution; consequently, some students believe that no considerable improvement is to be expected so long as man is what he is. That is a defeatist doctrine not justified by history. Much of the difficulty in distribution arises from ignorance of the problems of distribution. Just as man has worked himself up to his present station, he

can and will solve this problem and advance to a more perfect stage of development for himself and for society. If we can have an accurate understanding in regard to the result to be attained, even the most selfish man will favor whatever is necessary to solve the problem of distribution, and the solution will not involve resort to such fallacious theories as "take from the haves and give to the have nots."

Among the many components of distribution, transportation is one of the most important. It may even be said that the developments in transportation in the last hundred years have accentuated some of the problems of distribution. In other words, without the transportation facilities we now have, we probably would not be spread out over so much territory nor be engaged in so many enterprises. Without the enterprises and the territory, we would not have the need for the transportation, and distribution would not be so much of a problem.

There has always been some sort of transport. At first, men and women were the burden-bearers; then some of the animals, but not all, because certain animals were considered sacred.

Improvement in the means and methods of transportation was slow, and its greatest development did not begin until a hundred years ago. It was then set in motion by the development of the steam locomotive as a practical utility, at which point the railroad was born. Long before that time, however, there was some

knowledge of steam as a potential power.

Much has been said and written about the science and function of transportation, yet most of the definitions are deficient; in some statements, it seems to be confused with locomotion and communication.

One man recently said that "transportation consists in moving persons and property from where they are to where they ain't," but that remark tells less than half the truth. Transportation overcomes barriers and annihilates distance; it furnishes the producer with outlets in all directions; and it places within the grasp of the consumer all the products from all the far corners of the earth. It does even more than that.

Without adequate transportation there could be no broad trade or commerce, and there is growing recognition of the indubitable fact that commerce has done and can do more to promote concord and amity between communities and peoples than has heretofore been accomplished in any other way.

As a railroad man with a pardonable prejudice, let me call to your attention something that history will corroborate, viz., that the Illinois Central Railroad, reaching from the Great Lakes to the Gulf of Mexico, and already given some credit for its part in the development of this State, has accomplished more than any other single agency in promoting trade and commerce within the Mississippi Valley. It has thereby definitely helped to assuage if not to overcome the griefs and misunderstandings engendered

by the war between the North and the South, and in like manner has promoted throughout the years direct trade between the Mississippi Valley and not only Latin America, but the rest of the world. These are achievements in the cause of peace and in the interest of mankind, and are worthy of the thoughtful consideration of all citizens and not of students alone.

Under the Transportation Act of 1940, the President of the United States has nominated a Board of three members to investigate the relative economy and fitness of transport by railroads, motor carriers, and water carriers, in order to determine the service for which each type is best fitted and the methods by which each should be developed so that a national transportation system may be provided.

This Board has the opportunity to render an outstanding service to the country. First, it has the authority and the duty to determine the place of transportation in the national economy, because upon the answer to this question will depend its findings and decisions on the other features specifically stated in the law. Next, it is to find the place in the transportation field to which each type of carrier is properly assignable. Even though not all types are named in the Act, all must be taken into account if they may affect other carriers that are named. After all types have been assigned their proper places, it is to recommend the method by which each

shall be operated and supported in the public interest.

The basic trouble with our transportation problem is lack of knowledge on the part of the people and their representatives as to what transportation means to all of us individually, to the nation, and to the government. Furthermore, we do not realize what it is costing.

The service charges collected by the carriers do not cover all the costs to the public of maintaining and operating all the various and, in many cases, uselessly competing agencies of transport.

The Board will no doubt canvass all items of cost, including hidden costs and subsidies; the losses which society suffers by reason of the draining wastes; taxes paid and taxes not paid; cost to the taxpayers and expense of maintaining duplicate facilities; loss of earnings and interest; cost of maintaining uneconomical and unnecessary docks and warehouses; destruction of highways and property values. It will doubtless bring to light the facts as to how many concerns and which ones are using the various waterways and highways provided and maintained with taxpayers' money; who is benefited by such savings as there may be in freight rates; and whether the farmer is benefited in the price obtained for his produce by reason of the lower freight rates on the waterways and highways as compared with rail carriage.

Waste in transportation has the same effect as direct waste in taxes or any other waste; it means destruction of savings and treasure,

loss of productive effort, unemployment, and constriction of purchasing power—all of which in turn mean increase in taxes, increase in unemployment, increase in the relief rolls, and all the resultant evils which sprout from an ignorant or false economy.

It is hoped the report of this Board will show what costs and losses will be incurred by the establishment or continuance of any particular theory or practice, and that it will make clear that the elimination of duplications and other wastes will enable increase in the quality and quantity of service to agriculture, industry, and the people generally, thus facilitating distribution, promoting travel, increasing employment and consumption, and thereby advancing the national welfare.

If consolidations or reorganizations are recommended, the rights of all parties in interest will have to be conserved, and an honest dollar invested in common stock given the same consideration as a like dollar put into any so-called preferred issue.

The managements of the railroads will enter sincerely and faithfully into the purpose and endeavor of the Board's studies; they can and will have every reason for cooperating fully and extending every possible assistance.

Like all other industries, the railroad industry has suffered hard times, but it is not behind the eight ball, as has been insinuated. There are bankruptcies and receiverships but no more failures than in the

commercial field, and fewer delinquencies in management.

During these lean years, when in many instances dividends were discontinued and interest defaulted, the condition of the property has been maintained, equipment has been improved, and service has been accelerated and extended. On several occasions when the business of the country suddenly expanded and, without previous notice, demands for greatly increased service were made, the roads took care of all traffic without disadvantage to themselves or to the shippers. On this showing alone they are entitled to commendation.

The situation of the roads could be improved by an increase in the permanent traffic, but even if there were volume sufficient to occupy all the facilities and fully restore the value of all the securities held by the public, directly and indirectly, the study should still be made for the purpose of establishing the place of transportation in the national economy.

The railroads are not opposed to other forms of transportation, any more than they are opposed to governmental regulation. No sensible railroad officer would want to go back to the days before regulation, but there is a feeling that regulation and administration of regulation have been carried to an extreme that hampers management and operation, without any particular benefit to the public.

The roads do not propose that any other form of transportation shall be handicapped by unfair laws; such laws would not be permanent if en-

acted. What all parties desire is an enduring solution of the transportation problem, such as will be in the public interest.

In every age there have been prophets of doom and disaster. We have them, in public life and out, vocal and vociferous, who tell us that the hope of democracy is ended, that we cannot stand against this or that, that we are on the way down, that we have no more frontiers, and that the day of the pioneer is past.

We know of course that the price of liberty is eternal vigilance, that we must be prepared always to defend our country, ourselves, and our rights from enemies without and within. Never can we afford to be careless or indifferent.

In the present world crisis we have a tremendous concern; and when this war has come to an end, as it must, we will have domestic conditions of our own to deal with. We need go no further back than twenty years to find what those conditions will be. Briefly, they are compassed in the transit from a war basis to a peacetime basis. In the meantime we should bear this inevitable fact in mind and plan now for the time after the war as well as act for the duration.

Far from being depressed on account of the maudlinings of our mistaken prophets, you young people have reason to be grateful and happy because of the great good fortune which you have had and now enjoy, and for your future outlook and promise.

Nowhere in the world outside America can there be found such a school as you have here; nowhere else does youth enjoy such opportunity; nowhere else is there such freedom of thought and action, of individual decision as to where to go and what to do; nowhere else is there so much to be done.

There is just as much of romance yet undiscovered and unused as there ever was.

Whether there are geographical frontiers or any other kind, we do not have to knock down any fences to get out and find occupation for our time and talents. There are more worth-while enterprises lying to our hands than we and many times our number combined can complete in a hundred years, and when these are completed, there will be as many more new ones to take their place.

When you go out on your own, you need not expect, as the children of Israel perhaps expected when they entered the Promised Land, to find milk and honey free for the taking. They had to do a right smart of fightin' to get and to have. True, the walls of Jericho fell down when Joshua blew his horn, but the world isn't so strong for hornblowers in these days. It takes more than wind to put the shine on your shoes and keep it off your pants.

The theory that the world owes a man a living is like all the systems for beating the horse races—there's nothing to it. If one man is owed a living, how about the other man, and who's to pay for it? Why do you suppose the race people are in the game, as they call it, and if you

should happen to win on a race, whose money would it be?

What the world offers is the opportunity to earn a living and to make your service to society as important as your endowments and ability will allow. There are so many ways in which one and all may make progress that it would be useless to enumerate them.

First, you will have to know what you are trying to do and why, and how to go about it. You will probably have to convince someone that what you propose is desirable and that you can do it. The subject of salesmanship may come up. There are few situations in the business world where there is so much false-fronting and, on the whole, so little genuine capacity. When the so-called high-pressure individual overpersuades some man or woman to buy whatever it is he happens to be promoting, he often outsmarts himself and his employer and does more harm than good to both buyer and seller. Real buying and selling should mean honest exchange of economic goods.

It is not yet known how many men will be taken into the military forces, or what may be the length of service necessary, but whether it be as short as we hope, or even longer, it is pertinent to consider now what your life work will be after you serve as soldiers or sailors, if you do.

If you men want to demonstrate how tough you are, you will not have to join the marines permanently; there are many fields in

civilian life where you can test your mettle and show your courage, where there is hard work to be done, where the operations of nature's laws are to be discovered and made plain to your fellow citizens whether they are engaged in agriculture, industry, merchandising, or transportation, for this is a universe of law.

Consider the opportunities right here in this State alone—the things that ought to be and can be done to restore and promote the welfare of its people. Take a look at the fair villages and towns desolated by the unnatural migration to the cities. Give a thought to the condition of those fine young Americans who are transposed from the free air and sunlight of the country to an existence for the most part in crowded tenements and neighborhoods, where identity is suffused and personality submerged. Think what may be the fate of the nation if there is much further increase in the proportion of the population in the congested cities as compared with the country. Try to understand what the continuance of this trend will mean in the lowering of individual and national

vitality and vision. What will life for Mary and John amount to when they have become nothing but numbers in precinct 78 in ward 42, even if it is in the largest city in the world? What is a man who is just one digit among ten million?

Some one said there is nothing for the youth of this country to do. Can you imagine such a condition?

What? With agriculture to be put on its feet and developed to its proper place, with industry to be located and relocated, with work to be arranged and rearranged, with the reasonable purpose and benefits of scientific distribution to be made plain, with the place of transportation to be established and recognized, with cities and towns and homes to be built and rebuilt, with education to be broadened and knowledge broadcast, with travel to be promoted, with sanitation to be perfected and health made more certain, with nitwit notions and crackpot theories to be disproved and discarded—with all these tasks and thousands besides?

Nothing to do? Who says there is nothing for youth to do?

## Illinois Oil

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ILLINOIS has frequently been called the black sheep of the oil-producing states, because in this state the right to produce as much

crude oil as is physically possible is not restricted by law. State regulation is concerned with only relatively few technical details instead

of with almost all aspects of petroleum production, as in Texas, Oklahoma, and New Mexico. Operators are almost completely free to drill as many wells as they desire, whenever they choose, on any size tract no matter how large or how small, and to recover as much oil as they can as rapidly as possible.

Although Illinois is frequently thought of as a newly discovered oil-producing area, it has yielded oil in commercially profitable quantities since the turn of the century. But until five years ago the number of barrels obtained annually was so small in comparison with the output of other states, that the need for regulation was not widely recognized. The present rank of Illinois as an oil-producing state is fourth, although its underground reserves make up only 1.4 per cent of the total reserve in the United States.

In 1905, the Southeastern Illinois field, which temporarily made Illinois an important oil-producing area, was opened. From 1905 to 1934 production steadily declined, although sporadic attempts to find additional pools were made. In this period 10,000 square miles of land in the central portion of the Southern Illinois basin remained unexplored. In 1930, the possibility of finding oil in this area was discussed by A. H. Bell of the Illinois State Geological Survey, and by 1934 the larger oil companies, especially the Pure Oil Company, utilizing information made available by the State Geological Survey and newly discovered exploration techniques, renewed the search for oil in Illinois. Since that time 5,000,000 acres of

land have been surveyed seismographically, with the result that 36 per cent of the wells drilled have yielded oil instead of only 3 per cent as before the adoption of scientific discovery techniques.

The Bartelso Oil and Gas Company pioneered in the current expansion of production when it successfully completed the well named Number 1 Trame in Clinton County on April 20, 1936, but development did not reach boom proportions until the Pure Oil Company brought in a gusher on the Travis farm in Clay County in May, 1937 to open the Clay City pool. Since the completion of the first Trame well in 1936, more than 90 pools have been discovered in the southern part of Illinois.

For the first time in almost 30 years Illinois became an important oil-producing state. But the exploitation of the producing area brought much unnecessary duplication of capital, physical waste, and immediate monetary loss. Burning flares and row upon row of wells clearly showed undesirable above-ground practices. Unseen loss of the pressure of natural gas in the reservoirs brought about by unrestricted, wide-open exploitation also helped to focus attention upon the disadvantageous production practices and policies in effect. But the factor which centered most attention upon the Illinois oil problem was the rapid decline in crude oil prices.

In September, 1939, operators representing 97 per cent of the oil production of Illinois signed petitions asking the Governor to call a

special session of the state Legislature to consider oil conservation measures; these petitions however, were disregarded. At the next regular session, a committee was appointed by the Legislature to investigate the oil industry and make recommendations. This group, made up of five members of the House and five Senators, recommended that there should be no state control of petroleum production.

When this attempt to control production failed, it was alleged that a relatively large number of persons who controlled a relatively small portion of the oil produced in Illinois were able to defeat the efforts of the smaller group that controlled most of the production. But proponents of state control continued to work for regulation.

As a means of reducing waste, Senators Arnold P. Benson of Batavia and Charles Carpenter of East Moline, on May 7, 1941, introduced a bill which would give a new three-man commission power to regulate production. Conservation, or the "prevention of physical waste," was sought by compelling "good engineering practices" in the field. But the fundamental provision was the clause giving the commission power "to determine, regulate and limit the production of oil or gas, or both, from any well, wells, leases or properties, in this state, for the prevention of waste."

Governor Dwight Green attempted to encourage the acceptance of this bill by the large number of small, independent operators in Illinois by emphasizing that:

"The inclusion in the bill of a common purchaser provision assures to the [small] independent operator a ready market for his oil at posted-market prices by compelling the larger units operating their pipe lines to purchase and transport his oil," and that the proposed legislation was designed to promote ultimate recovery and to afford the greatest possible return from development of natural resources, petroleum in this instance. But the bill did not become law.

Opposition to conservation legislation is being directed by the recently organized Illinois Oil and Farm Owners' Equity Association, whose members object to any infringement upon their present right to obtain as much oil as possible, as rapidly as possible, even though such maximum output may contribute to physical waste. Leaders of this group assert that Oklahoma and Texas oil men want Illinois production limited because Illinois is closer to the market. This advantage arises from transportation costs estimated as approximately 23 cents less per barrel.

Counteractivity is being carried on by the Illinois Oil Conservation Committee organized in April, 1941 by William H. McKain of Centralia. But this group has not been able to overcome the earlier start of the opposition group.

The most important impetus given to the conservation bill endorsed by Governor Green, which also had the approval of the Department of the Interior, the major oil companies, and the larger independents, was the appointment of Secretary of the

Interior Ickes as Federal Oil Co-ordinator. The power of the Federal government which he can exercise if Illinois does not adopt a satisfactory conservation measure is so much greater than in the proposed state legislation that the Illinois conservation bill was acceptable to many more oil men than it would have been without the threat of strong Federal control.

A five-man oil and gas conservation subcommittee of the Illinois Senate, headed by Senator Charles Carpentier of East Moline, conferred with Secretary Ickes in Washington, June 10, 1941, and upon their return to Springfield recommended that the Legislature adopt a waste-prevention act meeting the approval of the Oil Co-ordinator.

But on June 11, 1941, the members of the Illinois Senate subcommittee abandoned the two regulatory bills which were pending and had resulted in a steadily tightening deadlock between rival groups in the state's oil industry. There was little hope that the administration-supported bill to create a three-man oil commission, or the bill presented by its opponents which would have delegated enforcement of regulatory measures to the Illinois Department of Mines and Minerals, would pass; consequently, the subcommittee began drafting a new bill which they hoped might be passed before adjournment of the Legislature.

Petroleum bills passed in the last week of June were the first dealing with the oil business since the revival of activity in the state in 1937. In that week, four laws dealing with physical waste were rushed through. This legislation contained

a general injunction against "under-ground waste," "surface waste," and regulations providing for the spacing of wells, but did not give the State authority to restrict production. Thus the Legislature has not, in the opinion of those who regard conservation solely as restriction of production, passed a true conservation bill and there is no chance for any oil-regulation legislation for another two years unless a special session is called.

Secretary Ickes recommended that Illinois immediately "enact a law to eliminate as far as practicable the waste of oil and gas and at the same time eliminate the drilling of unnecessary wells." But production and drilling remain virtually unchecked in Illinois. The request of the Department of the Interior was rejected, with the result that Federal control of petroleum production will probably be put into effect in Illinois earlier than in most of the other oil-producing states.

A law calling for a 3 per cent tax on the value of petroleum produced in Illinois has been enacted. Governor Green, in a budget message asked for passage of the measure as a part of his program to secure additional tax revenue in order to offset a reduction of the state sales tax from 3 to 2 per cent. This measure, which is the first of its kind endorsed by an Illinois governor since the start of commercial development in 1904, is expected to bring \$7,000,000 into the state treasury. Opposition to this measure was not so great as that to the bill designed to restrict production.

In the past, the regulatory laws of other states have not been favor-

ably regarded by Secretary Ickes, who has often advocated strong Federal control of the industry. But his warning to the Illinois oil and gas conservation subcommittee that this state should adopt a waste-prevention act and his apparent present acceptance of the provisions of those of other states indicate that, in his opinion, Illinois may well adopt similar legislation.

Proration is the most widely adopted production control mechanism. Under this method of regulation, an "allowable," or the number of barrels of crude oil legally recoverable within a specified period of time, is determined for the entire state, for each field within the state, and finally for each well within each field. The legal criterion followed by regulatory bodies for setting these quantities is the prevention of aboveground and underground waste. In practice, however, in many instances crude-oil price maintenance is the fundamental determinant.

Conservation, which is the most advantageous utilization of the natural pressure of petroleum reservoirs and the recovery of the largest quantity of petroleum at a reasonable cost, is fostered by prorated recovery much more than by unrestricted, wide-open production, which rapidly dissipates costless, underground energy. The number of wells in the United States and the amount of oil they are capable of producing are so large that if their operators were permitted to put on the market all the oil they are capable of producing, the price they would receive would be disadvantageously low. Proration allowables, therefore, restrict the out-

put of wells in most oil-producing states in an effort to hold up crude prices and by so doing to conserve underground pressure, increase ultimate recovery, and lessen waste.

The best, most efficiently administered proration plan, however, cannot achieve anything approaching complete conservation. In practice any degree of conservation that is attained by most present, state-proration plans is incidental to their primary purpose, which is financial stability and profitable returns to the controlling companies in the industry. But this objective has been attained only in part.

The Rule of Capture, which is in effect in most fields, gives to each operator all of the oil he is able to get from his wells, whether it has come from that portion of the petroleum reservoir underlying his surface holdings or from under his neighbors' land. Proration allowables prevent maximum exploitation of each individual well but do not restrict the number of wells which may be drilled. Producers, in an attempt to get larger allowables, drill many more wells than needed to recover the same amount of oil. The result is the creation of a large, unnecessary potential-productive capacity which continually threatens the crude-oil price structure of the industry and makes costs unnecessarily high because excessive drilling results in duplication of capital.

Unit development of petroleum pools, which gives primary emphasis to the geological structure of the reservoir rather than to surface property lines, has not been widely adopted although it is the most ad-

vantageous petroleum exploitation method. Legal recognition of the right of owners or lessees of surface tracts to obtain only the oil and gas under their own land makes unnecessary the drilling of more wells than are needed to utilize most advantageously the natural energy of the pool. The rate of production can be controlled to obtain the most oil possible before resorting to expensive secondary recovery methods; production can be curtailed when the price offered for crude falls to the point where it does not cover costs; and physical waste can be lessened by eliminating practices which decrease the geological efficiency of the reservoir. Unitization also makes unnecessary the production of crude oil in such large quantities that

much of it must be stored in above-ground tanks or be consumed in low-value, uneconomic uses.

Illinois has, as yet, escaped severe Federal regulation of petroleum production. But Senator Carpentier of East Moline announced after his conference with Secretary Ickes, "Members of the Illinois Legislature should know that Secretary Ickes made it clear that he will deal in the future in his position as national petroleum coordinator either with individual Illinois operators or a recognized state agency." The Illinois Legislature adjourned without passing adequate waste-prevention legislation based on either proration or unitization. Therefore, producers in this state may well expect some form of Federal regulation of their activities in the very near future.

## "Wholesale" Buying by Consumers

LOUIS W. GROSSWIRTH, '41\*

THE FACT that some consumers are purchasing through other than retail outlets has created a problem of no small proportion for the retailers of the country. The type of buying to be considered in this article has no reference to other recognized methods of distribution, such as direct selling by manufacturers to consumers, mail-order selling, and selling at both wholesale and retail by organizations that have *clearly disclosed* this policy.

Although the practice of "wholesale" buying by consumers has been going on for years and has often been a topic for discussion at retail trade conferences, there are several reasons why so much interest is currently being evidenced in the problem. Retailers have been disturbed by the increasingly large amount of trade that has been diverted from their stores to other channels. Obviously, if goods on which savings are possible if they are purchased by roundabout meth-

\*This article was developed from a special senior report.

ods were not available in such large quantities today, there would be no problem at all. High unit value, standardized quality, relatively few, if any, service requirements, and wide retail margins are characteristic of such goods as refrigerators, radios, washers, vacuum cleaners, furniture, sporting goods, and tires; these are some of the items most frequently purchased at "wholesale." The growth of the consumer movement and articles on the subject of "wholesale buying," which have appeared in some popular magazines, have served to stimulate public, as well as trade, interest in the practice.

The majority of these diverted sales are made through connections that a consumer may have with an organization which allows its employees to buy goods through its purchasing department. If one is connected with such an organization—for example, a large corporation, bank, railroad, or insurance company—all he has to do is let the purchasing office of the company know what he wants, after he has previously decided just what he *does* want by shopping a retail store that carries the item. The purchasing department then orders the article desired from a manufacturer or wholesaler. Delivery is made either to the company or to the home of the buyer.

In case the buyer wishes to make his selection at the showroom of the manufacturer or wholesaler, the purchasing agent arranges for the inspection of the merchandise. The invoice is made out to the company, which assumes the credit risk, and to which the buyer makes payment.

In New York City alone there are said to be as many as 1,800 firms that allow employees to use their purchasing departments for the purpose of buying at "wholesale" by such methods. In Chicago, there are probably 1,100, and in Detroit, 600, such concerns.

Besides, there are many buying brokers, sometimes called "curbstoners," who will buy practically anything for anybody, for a commission. No connection is needed in this case. Some of these brokers even send out circulars advertising their services, but mostly they become known by word-of-mouth recommendations. If they do not do the actual buying, they will direct the consumer to a source where he may make his own selection. Of course, the price paid is higher than if he dealt directly with the manufacturer or jobber, yet it is lower than the retail price.

Also, there are in existence some scattered "buying clubs," the members of which pay a membership fee which covers purchasing privileges for a certain length of time. The members shop the retail stores in order to decide what they want. The desired merchandise is then secured for them by the purchasing agent of the club, who maintains contacts with certain manufacturers.

In many cases, consumers may buy directly from manufacturers and wholesalers who also sell the same merchandise to retailers. The consumer-buyer selects the goods he wishes at the factory or showroom of such a vendor, much as he would in a retail store.

It is interesting to note the types of buyers who buy goods "wholesale." City dwellers take the greatest advantage of short-cut buying, and, as might naturally be expected, the larger metropolitan areas seem to be the central points of the practice. Most often, the patrons of "wholesale" sellers are people who are relatively well off financially, and who therefore should logically be able to pay established retail prices. It is only natural that persons who are engaged in some branch of marketing work, or who are executives with wide business contacts, should have more opportunity to make use of available discounts than those who perform routine or manual work. Industrial executives, retail store owners, salesmen, public utility, accounting, insurance, and professional men are the ones who most frequently buy at "wholesale."

In order to get a more complete picture of the problem, it is desirable to know something in regard to the extent of such practices. Adequate information is not available, but various estimates have been made. According to the National Retail Furniture Association, \$150,000,000 in sales each year is lost to retail furniture dealers through short-cut methods of distribution. Mr. W. J. Cheyney, vice-president of the organization, states that "leakage in distribution is responsible for an estimated loss to retailers of a billion and a half dollars annually." He maintains that "unfair distributive practices" affect 1,500,000 stores. According to the *Journal of Marketing*, the rug buyer

of a certain department store in New York City estimates that 10 to 15 per cent of rug and carpet sales are diverted from retail channels. A large New York life insurance company, which employs 15,000 persons, admitted that 80 per cent of that number were making purchases through the company's employee store.

The proportion of purchases made at a discount varies with the specific articles bought. For instance, according to a survey reported in the *Harvard Business Review*, 20.9 per cent of refrigerators are bought at a discount, 18.3 per cent of washing machines, 32.8 per cent of tires, 13 per cent of furniture, and 25.6 per cent of sporting goods. On the other hand, only 1.8 per cent of automobiles are bought at a discount, and only 2.9 per cent of coal and fuel.

If so much buying is being done through other than retail channels, buyers must feel that there are certain definite advantages to them in the use of these methods. It may be worth while to inquire what these advantages may be. Obviously, "getting it wholesale" implies a lower purchase price, and several studies that have been made show that the initial cost of such purchases is indeed less. One study made a few years ago by a New York University student, and reported in the *Journal of Marketing*, sets forth that ten nationally advertised articles in the home-furnishings field were shopped for, prices being obtained from two commission brokers, one insurance company, three banks, a university,

several specialty stores, and fourteen department stores. Prices on practically every item were quoted substantially higher in the retail stores. The study reported in the *Harvard Business Review* showed that "the buyer actually does get a discount from the established retail prices," the author's conclusion being based on "personal shopping tours, numerous trade interviews, and the discount-buying experiences of several hundred consumers."

But along with this lower initial cost go certain disadvantages, some of which the buyer may not realize until it is too late, if at all. Some of these disadvantages may be mentioned. Usually cash must be paid either when the goods are ordered or as soon as they are received; credit is rarely allowed. Almost all sales are final; if not, very little in the way of guarantees is given, and few adjustments are made. There is an extra charge for delivery of the goods. Considerable inconvenience is involved in making selections, since it is first necessary to shop the stores in order to decide just what is wanted and later to visit the showroom of the vendor. Generally a special buying contact is a requisite of such transactions. The buyer rarely buys the actual article inspected, but must depend on a sample or description. Some of the so-called "wholesale houses" are merely racketeers, who unload inferior merchandise on the gullible who have fallen for the "wholesale" bait. Probably the greatest drawback in this kind of buying is the fact that in only rare instances is service a term of the sale, and the

cost of servicing after the purchase has been made very often offsets the amount of the initial money saving. Even though most, if not all, of these disadvantages are present in all "wholesale" transactions, they are rarely mentioned either by the seller or by the buyer, who is naturally reluctant to admit that he has been taken in.

The next question that arises is why manufacturers and wholesalers should try to secure consumer trade in this way, for they undoubtedly must consider that there are advantages for them in this practice. The answer is likely to be found in the organization of our competitive system. Each manufacturer, wholesaler, and retailer naturally wishes to get as large a share of the consumer's dollar as he can. Although, for the market as a whole, direct sales made by manufacturers and wholesalers might be thought of as substitutions for sales normally made through retailers, an individual sale cannot be so considered. The heart of the whole problem may be centered in the question as to what type of distributor can best serve the consumer market. The natural development of retailing presumably proves that selling to consumers is the proper function of the retailer. Some students of marketing problems are beginning to wonder whether trade diversion may not be a revolt of the people against the kinds of service which are offered by the retailer. Consequently, it may now be the task of the retailer to justify the prices which he charges by proving that the services he offers are really de-

sired by the public and that the public is willing to pay for them. Otherwise, he should eliminate these special services and reduce his prices accordingly.

This problem, then, offers a challenge which retailers must meet or continue to lose the trade that is being diverted to other channels. The situation has been recognized by various retailers, groups of retailers, and businessmen's associations, and some defensive measures have been adopted in the past few years. The National Retail Furniture Association, the National Better Business Bureau, the Chamber of Commerce of the United States, and the National Retail Dry Goods Association have been notably active in a country-wide effort to combat the practice in one way or another. Many local organizations have also joined in the campaign. In Chicago, for instance, the Chicago Retail Furniture Association, the Chicago Retail Hardware Association, and the Chicago Association of Commerce have been particularly aggressive.

The greater part of the efforts of these organizations has been directed toward an attempt to bring about a change of policy by the employers who allow employees to buy consumer goods through their purchasing departments; the extent of this practice has been indicated previously. Although some employers refuse to admit the shortsightedness of this custom and continue to allow it, the sponsoring groups report that their campaign has been very successful; according to a report by the National Retail Furni-

ture Association, "nearly three million employees are now potential retail customers, who before were not." The campaign involved educating the employers as to the disadvantages of "wholesale" buying by their consumer employees, and also stressed the point that the sources from which the employees were being encouraged to buy were actually "unfair." Since the purpose of allowing employees to buy through a company is supposedly to improve employer-employee relationships, the wisdom of the policy was open to serious question when it was shown that many buyers later became dissatisfied with their purchases and did not hesitate to blame the employers who had helped to arrange the transactions. Since, like everyone else, the employer is most interested in his own welfare, this argument was very effective. Those employers who declined to comply with suggestions to discontinue the practice said that the protest should be lodged with the manufacturers and wholesalers who actually make the sales.

The firms who supply consumers with goods by this method were told that they were driving the retailers—upon whom they must chiefly depend for distribution of their products—right out of the picture. An attempt was made to show them that it was not only unfair, but actually bad business to continue such practices. The members of at least one retail association threatened to boycott any suppliers who continued to use this short-cut method of reaching consumers.

Furthermore, manufacturers who

supply these alleged wholesalers have been asked to honor the orders of legitimate retail and wholesale dealers only. The basis for decision might be determined by ascertaining whether the firm concerned is listed with a responsible credit rating bureau. Steps have been taken to control "open showrooms," since once a customer visits one of these showrooms he is likely to be lost to the retailer. It may be possible, however, that the retailer is partly to blame for the buyer's visiting a showroom, since he does not carry a sufficiently large stock, and therefore sends the prospect to some other source to select merchandise.

Besides the plans for meeting the problem which have already been mentioned there is another with which the general public is probably more familiar, namely, an appeal to the consumer himself. This part of the campaign has been carried on mainly by Better Business Bureaus. Their debunking advertisements, headed "I can get it for you wholesale," have appeared in many newspapers. This method of attack is basic, and may furnish a solution to the entire problem. Unfortunately, people are prone to consider only the initial cash savings when

they buy at "wholesale," leaving out of account the many disadvantages which have been mentioned. In this case, as in so many others, "Money talks."

What will be the future of this situation? It is difficult to predict, but I venture the opinion that short-cut buying will continue until such time as people are convinced that retailers are offering them services that are desirable. They may then realize that the prices paid for such services are not excessive, and that the price spreads are due to costs, not to profits. They will then be willing to patronize established retail outlets instead of seeking a means of short-cutting the regular channels of distribution. In addition, as manufacturers and wholesalers come to learn that employing such practices is equivalent to "biting the hand that feeds them," it is to be hoped that they will desist from their use.

Unless the practice shows considerable decline, there may be more truth than poetry in the story of the panhandler who begged for four cents rather than a nickel with which to buy a cup of coffee. "For," as he explained, "who buys retail?"

# Labor Standards and the Defense Program

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IN A recent seminar meeting at the University of Illinois, a graduate student presented a report on his doctoral dissertation. He was subjected to a vigorous and critical cross-examination by various members of the faculty, which left him considerably chastened and not a little confused and bewildered. The next morning he met one of the professors in the hall and said, "Professor, I want to know whether you are one of my protagonists or one of my antagonists." Professor X replied, "Well, Mr. Jones, I don't believe you had better consider me either one of your protagonists or one of your antagonists, just consider me a 'tagonist'." In the following article the writer also would like to be considered as just a "tagonist."

At the outset it may perhaps be necessary to define what the term "labor standards" includes. Labor standards refer to the wages, hours, and working conditions that prevail in industry at any given time. These standards may be divided into two groups—the minimum standards established by law and the actual standards established by trade unions or the competitive system. The minimum legal standards include such regulations as minimum wage and maximum hour laws, safety and health laws, and various measures designed to reduce the risks of eco-

nomic insecurity such as workmen's compensation, unemployment compensation, and old age insurance. The trade union or competitive standards refer to the actual wage, hour, or working condition standards that may be established above the legal minimum requirements. In this article it is proposed to examine both legislative and trade union standards as they bear upon the defense program. Emphasis will be placed upon the economic effects of such legislative standards as are established by the Fair Labor Standards Act and the Walsh-Healy Public Contracts Act, and such trade union standards as those involving wage and hour regulation above legislative minima, overtime, holiday work, closed shop policy, membership requirements, etc. Brief attention will be given to the impact of the defense program upon such legislative standards as those involving safety, health, and social security.

Specifically, the questions raised by the presence of these labor standards in the national defense program include the following: Are existing labor standards retarding our defense efforts? If so, how and where? How have these standards affected the demand for labor? Have the time-and-one-half provisions in legislative and trade union standards unduly penalized industry by

raising costs, lowering profits, or restricting industrial production? If so, in what industries and in what manner? Have these standards operated to restrict the supply of labor in any defense industries? To what extent did the maximum hour and minimum wage standards retard production in France, and to what extent is the French experience applicable to our situation? What sacrifices or relaxation of existing labor standards—legislative and trade union—are necessary at present in our defense program?

Up to the present, the defense program has meant sacrifice to virtually no one except some draftees and national guardsmen. Income from agricultural marketings is running about 10 per cent above that of a year ago. Corporate profits are about 20 per cent higher than in 1939. Labor has gained along with other parts of the community. In the first full year of the defense program (July, 1940 - July, 1941), over two million of the unemployed went to work. Weekly earnings in manufacturing between July, 1940 and July, 1941 increased more than 15 per cent and payrolls advanced almost 40 per cent. In the meantime, the cost of living increased only about 3 per cent.

Although it is fully recognized that wage and hour problems cannot be entirely separated, nevertheless it may be worth while to attempt some evaluation of hour standards, as distinguished from wage standards, in the defense program. Let us first consider the problem of legislative hour standards.

There are two principal Federal

laws that contain maximum-hour provisions, exclusive of state laws dealing with this subject. Inasmuch as most state hour laws for men follow rather closely the Federal standards, we shall confine our discussion of legislative hour standards largely to these Federal statutes. The Fair Labor Standards Act establishes a maximum straight-time working week for all workers in interstate commerce, or in the production of goods for interstate commerce, of 40 hours. It should be stressed that this act contains no restrictions upon the length of the working day, nor does it prohibit hours in excess of 40 a week. It provides only that time and one-half must be paid for all hours worked in excess of 40 a week. The Walsh-Healy Public Contracts Act specifies that all work done on Federal contracts for supplies (in excess of \$10,000) must not exceed a maximum of 8 hours a day, or 40 hours a week. The Walsh-Healy Act thus carries an additional restriction on the length of the working day that the Fair Labor Standards Act does not, but the 8-hour-day maximum is not so much under attack as the 40-hour week. Trade union maximum-hour standards generally specify a 40-hour week or less before overtime begins, but they frequently provide for double time rather than time and one-half for work on Sundays, holidays, and night work.

Inasmuch as the 40-hour week may be exceeded at any time by the employer upon payment of time and one-half under both these Federal laws as well as most trade union agreements, the question posed is:

How much will the "penalty" rate of time and one-half for the hours above 40 a week limit or interfere with the production of defense materials? This question can be answered only by analyzing it in relation to (1) the unemployed labor reserve; (2) employer costs and selling prices; (3) employee efficiency, productivity, health, and safety. If enough men are available and facilities for employing them are also available, production will not be hampered and the work will be spread, thereby fulfilling the primary objective of the maximum 40-hour week. But if there is a shortage of a specific kind of labor, or of facilities, and the employer is both unwilling to stand the additional cost of the penalty rate himself and unable to pass it along to the government or to consumers, production will be checked. Also, back of all these considerations stands the question of the effect of a lengthened working week upon employee efficiency, morale, productivity, health, and safety.

A brief review of the experience of France, Germany, and Great Britain, and of our own World War I efforts, may help to throw some light on this question. Take first the case of France. It has been widely asserted that the 40-hour maximum work-week instituted under the Blum government in 1936 greatly restricted French production and thereby contributed to the French collapse; hence it has been contended that this experience indicates that our 40-hour-week maximum is too restrictive and must be relaxed if our defense efforts are

not to be impaired. But this conclusion springs from a complete lack of understanding of certain fundamental differences between the French law and ours. In the first place, the French reduction in the work-week from around 48 to a maximum of 40 established a hard and fast limitation for most industries. Overtime could be worked only under exceptional circumstances. In other words, the French law provided for very little flexibility in the length of the working week. In contrast, our laws place no limit upon the length of the working week. An employer here may work his force, 50, 60, or 80 hours a week if he wishes, provided he pays time and one-half for all hours in excess of 40. Thus, whereas the French laws set a rigid limit on the length of the work-week, our laws are very flexible in permitting a work-week of indefinite length. Furthermore, the real causes of the decline in French production in the late 'thirties were obsolete machinery and methods of production, political instability and internal disunity, as well as the wage provisions of the French law, which required that the same wages be paid for 40 hours as had previously been paid for 48.

In Germany, before Hitler came to power in 1933, the legal working week was 40 hours. In 1934 a law was passed establishing an 8-hour day and a 48-hour work-week. These standards continued in German industry from 1934 to January 1, 1939, when they were modified to permit a 10-hour day and a 60-hour week. With the outbreak of war in Sep-

tember, 1939, even this restriction upon the working day and working week was removed in the effort to maximize production. But the results were so disappointing that the 10-hour day was restored in December, 1939. According to the *Monthly Labor Review*, "Production began to fall off rapidly, accompanied by such an alarming increase of industrial accidents and stoppages as to attract the serious attention of the Government. The Government began to lighten somewhat the hard labor conditions."

There is no general hour-legislation in Great Britain comparable to our Fair Labor Standards Act. Maximum hours for adult men are largely determined by collective agreement. For women and for young persons from 14 to 18 years of age, the Factory Act of 1936 set 48 hours as the maximum work-week. In the general drive to maximize output in 1940, hours were greatly extended by agreement in collective bargaining contracts and by governmental relaxation of hour restrictions for young persons. Industry began working at top speed 24 hours a day, 7 days a week. Working weeks of 70 and 84 hours were not uncommon. All experiences of the first World War, showing that in the long run excessive hours reduce output because of the physical and nervous exhaustion of the workers, were disregarded. But it quickly became evident that hours of 70 and 80 a week would not increase output but were actually reducing individual productivity. Action was taken to reduce the length of the working day and week and to

increase the size of the available working force. Mr. Bevin, Minister of Labor, recommended that the hours of work be reduced, not by a general order, but in "accordance to the circumstances of different industries," and suggested that the optimum work-week for maximum production would be on the average about 55 or 56 hours a week.

Finally, our own World War experience with maximum-hour standards may be briefly mentioned here. It was recognized early in that conflict that maximum production was not to be achieved by a general lowering of labor standards, nor were they so lowered. The famous General Order No. 13 issued by the Chief of Ordnance stated that "Industrial history proves that reasonable hours, fair working conditions, and a proper wage scale are essential to high production. During the war every attempt should be made to conserve in every way possible all of our achievements in the way of social betterment. But the pressing argument for maintaining industrial safeguards in the present emergency is that they actually contribute to efficiency. To waive them would be a shortsighted policy, leading gradually but inevitably toward lowered production."

If it is conceded that a work-week longer than 40 hours is necessary to maximize output, the real controversy becomes not whether penalty rates should be paid for overtime, but at what point overtime rates should begin. And how much of an additional cost does overtime involve? The Fair Labor Standards Act was passed at a time of great

unemployment, and one of its purposes was to encourage the spreading of work. A law designed to deal with labor surpluses, however, may not be suited for a period of labor shortages. And yet a strong case can be made against so amending this law as to permit a 48-hour work-week at straight time for, say, two years. In the first place, if the penalty rate of time and one-half succeeds in spreading the work by additions of extra shifts rather than by working regular personnel overtime, costs will not increase and no retarding influence on production should result. Of course, this assumes that the labor supply for the extra shifts is available. It seems rather idle to talk of a labor shortage with 7 or 8 million unemployed. An inventory of unemployed workers by the United States Employment Service in June, 1940, showed approximately 1 million skilled workers and 1½ million semi-skilled workers registered as looking for work. In addition, some 9 million workers who are now at work are working less than 40 hours, and perhaps half of these are working less than 30 hours, a week. The Illinois State Department of Labor, in a study made last March, found that 42 per cent of the smaller firms—those employing from 6 to 500 workers—have no defense work of any kind and their equipment and men are being used less than three-fourths of one full shift. Thus, much of the apparent shortage of skilled workers may be due to a geographical maldistribution of labor and might be largely overcome by the subletting of portions of large

defense contracts. Furthermore, when it is considered that 600,000 young workers enter the labor market each year, that higher wages will probably attract many workers who have been out of the labor market, and that technological changes have cut down both the total number of workers and the skill needed to carry on the production job, the shortage of workers begins to appear as more fancied than real. And, as a final point, it is stressed that the penalty overtime rate may greatly accelerate the training programs of trade unions, employers, and the government.

But suppose a real shortage of skilled labor in defense industries does develop. Will the penalty overtime rate starting at 40 hours result in "prohibitive costs" to industry and a retardation of defense production? Whether or not time and one-half will involve increased costs and lower profits to industry will depend first of all upon the relation of labor costs to total costs of production, and second on the extent to which these costs are shifted onto the government or onto the consumer in the form of higher prices. In answer to the contention of Mr. Sloan of General Motors that time and one-half for the sixth day of production would increase labor costs 8 per cent and industry could not afford this, Colonel Fleming of the Wage and Hour Division pointed out that in an industry in which direct labor costs make up only 25 per cent of total costs, time and one-half for the sixth day would add only 2 per cent to total costs of production. If industry elects, or is

forced by a labor shortage, to work its existing force overtime rather than spread the work, industrial profits will not fall so long as this added cost can be shifted onto the government or onto the consumer in the form of higher prices. Of course this will increase the cost of the defense program and lower the standard of living. But it should be realized that this development involves a controversy over the division of the national income and has no direct bearing on defense production. The extra cost to the taxpayer, moreover, may be very moderate, because the large weekly earnings produced by overtime work help employers to attract or to hold men with little increase in basic hourly rates. The more moderate the rise in basic wage rates, the easier will be the ultimate problem of adjusting our economy to peace-time production. The taxpayer can afford to pay a little more for armaments now if thereby the return to peace-time production will be facilitated.

Two other considerations must be taken into account in an appraisal of the present legislative hour-standards. The first one is that raising the number of hours allowed at straight time would bring the straight-time maximum closer to the maximum than is consistent with the preservation of the health and safety of the workers, and thus narrow the margin that would be left for emergencies without passing the proper health and safety limit. Thus, while the time-and-one-half provision does not guarantee that hours will not exceed the rea-

sonable health and safety limit, it may provide some check against these excessively long hours. The other consideration is that if the legislative hour provisions calling for time and one-half are relaxed on the ground that there is a shortage of skilled labor, this relaxation will not solve the problem, inasmuch as most skilled workers depend upon collective bargaining contracts for overtime pay rather than upon the Wage and Hour law. Consequently, if such relaxation of legislative hour-standards permitted the working of unorganized unskilled workers long hours without overtime while skilled workers would collect for overtime as before, the result would be most unfair to the poorly paid workers not covered by agreements. And finally, before organized labor will agree that any lengthening of the straight-time week is necessary, and before any such lengthening should be pressed, there must be the strongest assurance that such relaxation of hour standards is indispensable in keeping down the cost of the defense program and the cost of living rather than such relaxation contributing to larger employer profits.

The legislative minimum-wage standards up to the present have raised no serious questions in the defense program. The only absolute minimum prescribed by Federal law is the 30 cents an hour minimum of the Fair Labor Standards Act. This minimum can be raised as high as 40 cents per hour in specific industries as a result of hearings and recommendations by special industry committees. But these minimum standards are of course too low to

affect the wages of highly skilled workers. On the other hand, although the Walsh-Healy Act establishes no fixed standard for wages, it does prescribe a minimum to be paid on all government contracts based on "the prevailing minimum wage." In accordance with this provision the minimum has been set considerably above 40 cents in some industries by the Secretary of Labor, and it may therefore affect the wages of skilled labor.

It does not seem likely that the legislative minimum-wage requirements of either the Walsh-Healy Act or the Fair Labor Standards Act will greatly slow down either the letting of government defense contracts or the defense program generally. If any manufacturers are suffering from real geographical handicaps, accompanied by correspondingly lower living costs for their workers, these facts will presumably be taken into consideration under the Walsh-Healy Act in determining the wage minimum in that geographical locality. If the wage standards to be followed in the defense program are to be only those at present required by legislation, they are more likely to prove inadequate than excessive, inasmuch as the existing wage laws insure neither a living wage in the present nor a guarantee that wages will keep pace with increased living costs in the future. Surely a reduction in real wages from the present legislative minimum standards is not the type of sacrifice that would be either just or socially desirable.

With reference to trade union wage standards and policies, there

are more serious questions involved. First of all, the stabilizing effect of standard wage-agreements in preventing both employers and employees from "job shopping" should be noted and commended. According to Mr. Hillman, this shopping for jobs from place to place has cost more loss of time in defense industries than strikes. But beyond this, what wage policy and what wage standards will best serve the needs of our defense program as well as the post-defense readjustment period?

Some increase in wages will be necessary to attract men into the defense industries. The temporary character of defense work and, in many cases, the higher cost of living in new defense areas will demand some compensating wage adjustments. But wage increases that are not necessary to attract men into the defense industries are open to serious question. And it is no answer to say that wage increases should keep pace with employer profits and the cost of living. In view of present and proposed tax schedules and price control policies, any rise in industrial profits created by the defense program will, in considerable measure, be temporary. Labor's share in temporary profits should probably take the form of temporary bonuses rather than permanent wage-rate increases. If permanent wage rates are raised because of a temporary improvement in profits, the end of the defense program will bring cost-price relationships even more unfavorable to employment than those which existed before the defense program started.

The great importance of wage problems in the national defense program indicates the need for a carefully formulated national wage policy. If defense production is so large as to restrict the output of consumer goods, higher wages will do little to raise the standard of living of the workers. Their principal effect will be to increase the cost of living. If that happens another wage issue will be raised, because many people believe that wages should be increased in proportion to an advance in living costs. That idea may have validity in ordinary times, but it obviously does not apply when non-defense output can be increased only at the expense of defense production. A rise in the cost of living means that demand is outrunning the capacity of the consumer-goods industries and that workers are wasting a large part of their wages in bidding up the prices of a limited supply of goods. Wage advances would only aggravate this difficulty. The way to deal with the problem of a rising cost of living is not by general wage increases, but by fiscal policy. Taxes and sales of baby bonds to real savers must be large enough to limit the demand for non-defense goods to the country's capacity to produce them. The higher the volume of consumer income, whether because of large dividends or increases in wage rates, the more drastic must be the government's efforts to limit non-defense demand. And finally, this national wage policy should be reached by agreement among representatives of industry, labor, and government rather than imposed upon labor and industry by

the government. It should recognize that all groups in the community have an interest in avoiding a vicious spiral of wage-price increases and in guarding against a rise in costs that will aggravate the difficulty of shifting later from defense to non-defense production.

Non-wage-and-hour legislative labor standards demand only brief consideration. There should be no relaxation but rather a tightening of all legislative standards dealing with safety and health and the risks of economic insecurity. There is an urgent need to extend unemployment and old age insurance coverage to the "in-and-out" defense workers if serious injury to this group is to be avoided. Chairman Altmeyer of the Social Security Board has called attention to this need by citing the cases of many workers in the metal trades, building trades, and other crafts moving out of private covered-employment into direct government work such as arsenals and shipyards, thereby losing their social security coverage.

Many non-wage-and-hour trade union standards should be relaxed or modified. Trade agreement provisions prohibiting night work, Saturday, Sunday, or holiday work should be removed. Oppressive overtime provisions, such as double or triple time, should be eliminated. Seniority restrictions should be relaxed to make it easier for men to follow their work when it is shifted from one department to another or from one plant to another. Excessive union membership requirements, such as exorbitant initiation fees and dues, must be eliminated on

all defense works. Modification of apprenticeship provisions must be made to expedite and increase the training of apprentices. A four-year apprenticeship requirement is unnecessary and undesirable on most defense jobs. And finally, trade union insistence upon the strict union-shop on all defense projects should give way to at least the preferential union-shop.

In summary, the following conclusions may be offered. Up to the present few sacrifices have been called for on the part of any group in the furtherance of our defense efforts. But sacrifices are inevitable for all members of the economy in

the near future. When such sacrifices become necessary, labor should shoulder its share of the load. As a consumer and as a taxpayer, labor will make many sacrifices in our defense efforts. But to single out labor as a group and ask it to make additional major sacrifices in the form of greatly lowered labor standards seems unnecessary and undesirable until and unless more evidence than has yet been produced indicates that these same standards are holding back defense production, or that industry and investors are making equally great sacrifices in the form of drastically curtailed profits.

